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## THRIFT PLAN

The Thrift Plan for Employees of the Federal Reserve System (the Thrift Plan or the Plan) offers you a convenient way to save and invest for your retirement or other major expenses. You can also reduce your current federal income taxes when you choose the pre-tax savings feature of the Plan. To help you build your savings more quickly, your Employer makes matching contributions to your account on your behalf.

With the Thrift Plan, you have an opportunity to:

- Save money on a regular basis through voluntary payroll deductions;
- Choose to save on a pre-tax or after-tax basis, or a combination of both methods;
- Contribute up to \$40,000 or the equivalent of 100 percent of your salary, whichever is less, subject to IRS limitations. Contributions also include Employer Matching contributions. (If you are under age 50, you may contribute up to \$11,000 in 2002 on a pre-tax basis and \$12,000 in 2003; if you are age 50 or older, you may contribute up to \$12,000 in 2002 on a pre-tax basis and \$14,000 in 2003);
- Receive Employer Matching contributions (\$ .80 for every \$1 you contribute, up to the first 6 percent of your salary per pay period, during your first five years of service; \$1 for every \$1 you contribute, up to the first 6 percent of your salary per pay period, after five years of service);
- Select from seven investment options; and
- Defer taxes on Employer Matching contributions, your own pre-tax contributions, and all earnings in your account until you withdraw them.

The value of your account at any given time will depend on the market value of the investment options you have selected, the timing of cash flows into the Plan, and payments out of the Plan. Keep in mind that the value of your Thrift Plan account may fluctuate with market conditions, and that past performance is not a guarantee of future results. We encourage you to consult with a financial or tax advisor when dealing with your benefits.



### ***BENEFITS EXPRESS:***

#### **THE THRIFT PLAN'S INTERACTIVE VOICE RESPONSE SYSTEM**

You may access account information by phone with *Benefits Express*. *Benefits Express*, an automated telephone system, provides you with around-the-clock access to information about your Thrift Plan accounts, and assistance with a variety of transactions.

With *Benefits Express*, you can:

- Access your Plan benefit information toll-free, 24 hours a day, Monday through Saturday, and after 1 pm Eastern Time on Sundays by calling 1-877-FRS-CALL (1-877-377-2255); and
- Speak with a Benefits Specialist at the *Benefits Express Center*, Monday through Friday, from 8 am to 8 pm Eastern Time (call the toll-free number listed above).

With *Benefits Express*, you'll be able to enroll in the Plan, request a form to designate or change your beneficiary, check your balance, increase or decrease your contributions, change your current and future investments, check investment performance, apply for loans, and initiate withdrawal procedures.

### ***BENEFITS EXPRESS ON-LINE:***

#### **THE THRIFT PLAN'S WEBSITE**

*Benefits Express On-Line*, the Thrift Plan's website, provides you with around-the-clock access to information about your Thrift Plan accounts, and allows you to make a variety of transactions. With *Benefits Express On-Line*, you can access information from home or work, 24 hours a day Monday through Saturday, and after 1 pm on Sunday. The Internet address is <http://resources.hewitt.com/benefitsexpressoeb>.

Using *Benefits Express On-Line*, you will be able to enroll in the Plan, check your balance, increase or decrease your contributions, change your current and future investments, check investment performance, apply for loans, initiate withdrawals, and designate or change beneficiaries.

## ENROLLING IN THE THRIFT PLAN

To use *Benefits Express* and *Benefits Express On-Line*, you will need your account number and a Personal Identification Number (PIN).

You may enroll in the Thrift Plan as soon as you begin working at the Federal Reserve. The Human Resources Department will provide you with an Employee Orientation kit which contains an initial PIN.

- To enroll, you will need to complete the proper enrollment procedure using *Benefits Express* or *Benefits Express On-Line*.
- You will be asked to change the initial PIN the first time you use *Benefits Express* or *Benefits Express On-Line*.

If you don't enroll when you first begin working at the Federal Reserve, you may enroll any time after that.

## YOUR BENEFICIARY

Your beneficiary receives your Plan balance if you die. *If you are married*, your spouse is automatically your sole primary beneficiary. To designate someone other than your spouse as your primary beneficiary, you must provide written and notarized consent from your spouse.

*If you are not married*, your estate is your automatic primary beneficiary unless you name someone else.

You can change your beneficiary(ies) or designate a contingent beneficiary by calling the *Benefits Express Center* or visiting *Benefits Express On-Line*.

Whether you are married or single, you can always designate a contingent beneficiary without anyone's consent. A contingent beneficiary is entitled to receive your Plan balance if you die and your primary beneficiary has predeceased you.

If you and your primary beneficiary die at the same time, the Thrift Plan ordinarily presumes that you survived your primary beneficiary so that your contingent beneficiary receives the benefit. Depending on your designation, one of two forms will be mailed to your address:

- An authorization form for a signature of spousal consent, or a certification that you are unmarried; or
- A confirmation notice indicating a signature is not required because you have selected your spouse as the sole primary beneficiary.

The authorization form has a section that allows you to change the default, whereas the confirmation notice instructs you to contact the *Benefits Express Center* to make that change.



## YOUR THRIFT PLAN BENEFITS AT-A-GLANCE

The chart below provides some general information on the Thrift Plan. More detailed information about how these features work is provided after the chart.

HOW MUCH YOU CAN CONTRIBUTE	<ul style="list-style-type: none"><li>You may save up to \$40,000 or the equivalent of 100 percent of your salary (whichever is less), on either a pre-tax or an after-tax basis, or a combination of both methods. This overall contribution limit includes Employer Matching contributions, as well as your pre- and after-tax contributions. (IRS rules may limit your contributions to a lower maximum.)</li><li>Your pre-tax contributions go into your Deferred Compensation account. In 2002, if you are under age 50, you may contribute a maximum of \$11,000 to the Deferred Compensation account. (This limit will increase in \$1,000 increments annually until it reaches \$15,000 in 2006.) In 2002, if you are age 50 or older, you may contribute an additional \$1,000, for a maximum of \$12,000 to the Deferred Compensation account. (This additional amount will increase in \$1,000 increments annually until the limit reaches a maximum of \$20,000 in 2006.)</li><li>Your after-tax contributions are deposited into your Savings account. You may also be able to make lump sum after-tax contributions to your Savings account at any time (minimum amount: \$100). To request a form, contact the <i>Benefits Express Center</i> or <i>Benefits Express On-Line</i>.</li></ul>
EMPLOYER MATCHING CONTRIBUTIONS	Your Employer matches \$ .80 for every \$1 you contribute, up to the first 6 percent of salary each pay period for your first five years of service. After you have five years of service, your Employer matches \$1 for every \$1 you contribute, up to the first 6 percent of your salary each pay period.
VESTING	<ul style="list-style-type: none"><li>You are always 100 percent vested in any contributions you make to the Plan (and any money you roll over or transfer into the Plan), plus any earnings on those funds.</li><li>If you were a Federal Reserve employee on December 31, 2001, you became 100 percent vested in Employer Matching contributions on January 1, 2002. If you began employment on or after January 1, 2002, you are 20 percent vested in Employer Matching contributions for each year of service until you become 100 percent vested after five years of service.</li></ul>
INVESTMENT OPTIONS	<p>You have seven investment options to choose from:</p> <ul style="list-style-type: none"><li>Fixed Income Fund;</li><li>Government Securities Fund;</li><li>Balanced Fund;</li><li>Equity Fund;</li><li>Equity Index Fund;</li><li>International Equity Fund; and</li><li>Small Company Equity Fund.</li></ul>

## LOANS

You may borrow from your Plan account and pay yourself back through payroll deductions. You are allowed to have up to two loans outstanding at any one time. The following minimum and maximum loan amounts apply:

- Minimum loan: \$1,000; and
- Maximum loan: the lesser of 50 percent of your vested balance minus any outstanding loan balances in the past 12 months, or up to \$50,000 (minus any outstanding loan balances in the last 12 months).

Any member or spousal beneficiary who is not in active service is eligible to apply for a Plan loan provided he/she has not yet attained age 70½ or is not receiving an installment distribution from the Thrift Plan.

## WITHDRAWALS

You may withdraw funds up to *three* times per year.

While employed, you may withdraw funds from your Plan account to meet *regular financial needs*:

- Under age 59½ while employed (Savings account, Individual Retirement Account (IRA), vested Employer Matching contributions (some restrictions may apply), and rollovers only);
- After you reach age 59½ (the balance of all your accounts); or
- If you become disabled (the balance of all your accounts).

While employed and under age 59½, you may withdraw money from your Deferred Compensation account only in the event of a *severe financial hardship*. Severe financial hardships are:

- Purchasing your primary residence;
- Preventing foreclosure or eviction from your primary residence;
- Paying for major uninsured medical expenses for you or your dependents; and
- Paying college tuition expenses and room and board for you or a dependent.

If you retire or leave the Federal Reserve, you may also request up to three withdrawals per year. Your entire account balance is available for withdrawal. There may be tax implications, so consult with your tax advisor.

Upon your death, your beneficiary may withdraw funds from the Plan.





**BENEFITS EXPRESS AND  
BENEFITS EXPRESS ON-LINE**

*Benefits Express*, a toll-free voice response system (1-877-FRS-CALL or 1-877-377-2255) and *Benefits Express On-Line*, the Plan's website, (<http://resources.hewitt.com/benefitsexpressoeb>), are available so you can:

- Enroll in the Plan;
- Check the status of your account;
- Change your payroll contribution percentage(s);
- Change the investment elections of your future contributions and Employer Matching contributions;
- Transfer your existing account balances, including both your contributions and Employer Matching contributions, from one investment fund to another;
- Designate a beneficiary;
- Request a loan;
- Request a statement;
- Initiate a rollover into the Plan;
- Request a withdrawal or distribution (distribution currently by phone only); and
- Obtain general information about the Plan.

You may speak to a Benefits Specialist at the *Benefits Express Center* Monday through Friday, 8 am to 8 pm, Eastern Time (except certain holidays) by calling the toll-free number above.

**ACCOUNT STATEMENT**

You will receive quarterly statements showing:

- Account balances at the beginning of the period;
- Any activity in the account during the period (contributions, distributions, etc.);
- Gains and/or losses on the account;
- How current contributions are invested;
- Any outstanding loan balances;
- Number of remaining installments;
- Vested amount and account balance at the end of the period; and
- Required minimum distribution amount remaining in the year.

## YOUR CONTRIBUTIONS

When you enroll in the Thrift Plan, you decide how much you want to contribute. You may save up to \$40,000 or the equivalent of 100 percent of your salary (whichever is less) to the Plan, in one-tenth of 1 percent increments, subject to IRS limits. This overall contribution limit includes Employer Matching contributions, as well as your pre- and after-tax contributions. For purposes of the Thrift Plan, your salary includes:

- Your regular basic wages before any salary reduction contributions and deferrals;
- Any shift differential;
- Any overtime; and
- Effective January 1, 2002, lump sum merit increases, on-call beeper pay, premium pay, and special projects additional pay.

IRS rules limit the amount of compensation on which contributions can be made. The maximum compensation for 2002 is \$295,000 if you became a Plan participant before January 1, 1996, or \$200,000 if you became a Plan participant after December 31, 1995. Therefore, you cannot contribute on salary in excess of these limits. This amount is subject to change by the federal government.

If your salary is more than the maximum compensation limit, the non-qualified Thrift Benefits Equalization Plan will make up the Employer Matching contributions that would have been made had it not been for these IRS limits. This will occur if you contribute 6 percent of your salary to the Thrift Plan in each pay period until you reach the compensation limit.

### *Pre-Tax And After-Tax Contributions*

You may choose to save on a pre-tax basis, an after-tax basis, or a combination of the two.

- *Deferred Compensation Account:* Your pre-tax contributions are deposited in your account before federal (and in most cases, state) income taxes are withheld.
- *Savings Account:* Your after-tax contributions are deposited into your account after income taxes have been withheld. You may also make lump sum after-tax contributions to this account (minimum amount: \$100).





## *IRS Limits On Contributions*

Your pre-tax contributions to the Thrift Plan are subject to IRS limits. For 2002, you may contribute up to \$11,000 on a pre-tax basis to the Plan. (This limit will increase in \$1,000 increments annually until it reaches \$15,000 in 2006.) If you are age 50 or older, you are permitted to contribute an extra amount to the Thrift Plan. These additional amounts are shown in the chart below.

	UNDER AGE 50	AGE 50 AND OLDER
2002	\$11,000	\$12,000
2003	12,000	14,000
2004	13,000	16,000
2005	14,000	18,000
2006	15,000	20,000

After 2006, the limit will be adjusted for inflation in \$500 increments.

Certain states have not amended their tax laws to reflect the additional deferred contributions that employees age 50 and over can make. Therefore, these additional deferred contributions will be exempt from federal income tax until withdrawn, but may not be exempt for state income tax purposes.

Total contributions (Savings, Deferred, and Employer Matching) to the Plan are also limited by the IRS to the lesser of \$40,000 or the equivalent of 100 percent of salary.

If you live or work in Pennsylvania, your pre-tax 401(k) contributions are subject to Pennsylvania state income taxes in the year of deferral.

**Please Note:** The IRS might limit future contributions by employees it considers “highly compensated.”

## *Changing Your Contributions*

You may change the percentage you contribute to the Deferred Compensation and Savings Accounts using *Benefits Express* or *Benefits Express On-Line*. Your new contribution rate will take effect with the first administratively possible payroll period.

### *Stopping Your Contributions*

If you want to stop your contributions, you may do so at any time by using *Benefits Express* or *Benefits Express On-Line*. Contributions will stop as of the first administratively possible payroll period.

If you decide to begin making contributions again, you must do so using either *Benefits Express* or *Benefits Express On-Line*. Your contributions will then begin with the first administratively possible payroll period (as long as you're still eligible).

### EMPLOYER MATCHING CONTRIBUTIONS

Your Employer matches \$ .80 for every \$1 you contribute to the Plan — up to the first 6 percent of your salary per pay period — for your first five years of service. The maximum amount of this matching contribution is 4.8 percent of your salary. After you have five years of service, your Employer matches \$1 for every \$1 you contribute, up to the first 6 percent of your salary per pay period.

The following chart shows an example of savings and matching contributions for an employee who earns \$30,000 per year and has less than five years of service (figures do not include any investment gains or losses):

IF YOU EARN \$30,000 A YEAR AND YOU SAVE:	YOUR ANNUAL CONTRIBUTION IS:	YOUR EMPLOYER ADDS:	YOUR ANNUAL TOTAL SAVINGS IS:
1 percent	\$ 300	\$ 240	\$ 540
2 percent	600	480	1,080
3 percent	900	720	1,620
4 percent	1,200	960	2,160
5 percent	1,500	1,200	2,700
6 percent	1,800	1,440	3,240



This next chart shows an example of savings and matching contributions for an employee who earns \$30,000, but has more than five years of service (figures do not include any investment gains or losses):

IF YOU EARN \$30,000 A YEAR AND YOU SAVE:	YOUR ANNUAL CONTRIBUTION IS:	YOUR EMPLOYER ADDS:	YOUR ANNUAL TOTAL SAVINGS IS:
1 percent	\$ 300	\$ 300	\$ 600
2 percent	600	600	1,200
3 percent	900	900	1,800
4 percent	1,200	1,200	2,400
5 percent	1,500	1,500	3,000
6 percent	1,800	1,800	3,600

## DEDUCTIBLE EMPLOYEE CONTRIBUTIONS (DEC/IRA)

If you were a Plan member between August 1, 1982 and December 31, 1986, you were eligible to establish a deductible employee contribution account. Those accounts, known as DEC/IRA accounts, are held in a separate sub-account under the Plan. However, you may no longer make contributions to a DEC/IRA account.

## ROLLOVER CONTRIBUTIONS FROM OTHER PLANS

If you participated in a qualified savings, pension, tax-deferred annuity, or a state or local deferred compensation plan with your former employer, or if you have an IRA, you may reinvest the distribution you received from that plan or IRA into the Thrift Plan.

Contributions made on your behalf by your former employer, your contributions (both pre-tax and after-tax), as well as earnings on both the former employer's and your contributions are eligible for rollover into the Thrift Plan. If you transfer the distribution in a direct rollover from your former employer's plan, you will not have to pay taxes on your rollover until you withdraw it. Rollover amounts can be invested in any of the Thrift Plan's investment funds.

To arrange a rollover contribution to the Thrift Plan, use *Benefits Express* or *Benefits Express On-Line* to obtain a Rollover Form and instructions on how to complete a rollover.

## YOUR INVESTMENT OPTIONS

You have several options from which to choose when deciding how to invest your contributions and your Employer Matching contributions. The Thrift Plan offers a range of investment funds. The chart on the following page provides a brief description of each of the Plan's current investment options.

INVESTMENT	OPTION DESCRIPTION
FIXED INCOME FUND	<p>The Fixed Income Fund primarily seeks to offer a stable value investment. Its goals also include reduced volatility of returns and the achievement of a return comparable to that of a portfolio of intermediate-term Treasury securities that are held to maturity.</p> <p>The Fixed Income Fund is primarily invested in investment contracts with insurance companies. All investments offer a guarantee of principal and interest by the issuer or a third party that is acceptable to both the Plan and the contract issuer.</p>
GOVERNMENT SECURITIES FUND	<p>The Government Securities Fund seeks to minimize credit risk and market risk, and to generate a return that over time will generally be greater than a portfolio of short-term Treasury securities.</p> <p>The fund invests in Government securities with remaining maturities of one to three years, including U.S. Treasury bills and notes, as well as securities guaranteed by the U.S. Government or its agencies.</p>
BALANCED FUND	<p>The Balanced Fund seeks to participate in both equity and bond market returns, while generating a return that will generally exceed a composite of 65 percent of the Standard and Poor's 500 stock index returns and 35 percent of the Lehman Brothers Government/Corporate Bond Index returns.</p> <p>The target asset allocation is 65 percent equities and 35 percent fixed income. Depending on market conditions, however, the asset allocation could range from 80 percent equities and 20 percent fixed income to a 50 percent/50 percent mix.</p>
EQUITY FUND	<p>The Equity Fund seeks to participate in equity market returns through investments in one or more actively managed diversified portfolios of common stocks, while generating returns over time that equal or exceed those of the S&amp;P 500.</p> <p>The fund is invested in mutual funds and unit trusts, which typically hold between 50 and 130 stocks, and may also hold some cash, money market instruments, bonds, foreign stocks, and other equity securities.</p>
EQUITY INDEX FUND	<p>The Equity Index Fund seeks to participate in the broad equity market returns through investments in a diversified portfolio of common stocks, and to generate a return that equals the broad equity market as measured by the Wilshire 5000 Stock Index.</p>
INTERNATIONAL EQUITY FUND	<p>The International Equity Fund seeks to participate in the international (excluding the U.S.) equity market, through investments in a diversified portfolio of common stocks, while generating returns that exceed those of the international equity market, as measured by the Morgan Stanley Capital International Europe, Australasia, and Far East (MSCI EAFE) Stock Index.</p> <p>The fund is actively managed and holds a diversified portfolio of foreign securities.</p>
SMALL COMPANY EQUITY FUND	<p>The Small Company Equity Fund seeks long-term growth of capital and income by investing in a diversified portfolio of small company stocks. The fund invests at least 65 percent of its total assets in companies with total market values of less than \$1.5 billion. The fund's objective is to generate returns that exceed those of the small company equity market, as measured by the Russell 2000 Index.</p>

The Balanced, Equity, Equity Index, International Equity, and Small Company Equity Funds comprise the Equity Group.



## INVESTMENT OVERVIEW

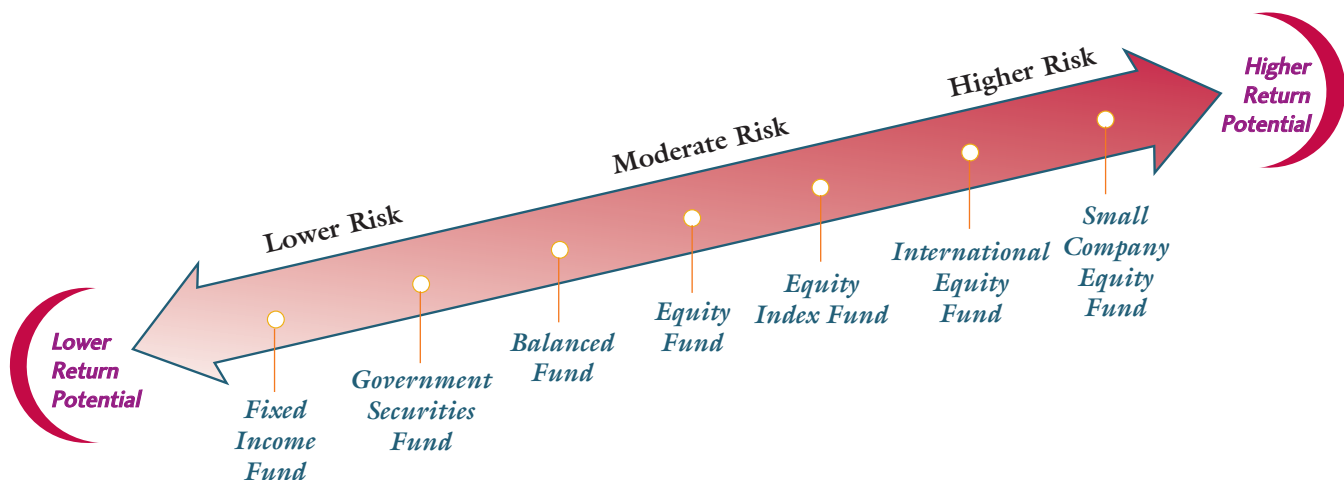
### *Risk And Return*

These investment funds differ in their income potential and in the level of risk they carry. As you make your investment elections, it's important to consider the risk of loss against the potential for gain. In general, higher risk means a higher potential return in the long term.

Please keep in mind that you have control of how you invest your contributions. Before you decide in which funds you want to invest, you should examine your investment objectives and the performance of each fund. You are encouraged to consult with a qualified financial advisor.

For more detailed information on the nature of each fund and its performance, you can request a prospectus from *Benefits Express* and *Benefits Express On-Line*. You can also find fund performance information on all investments on the **SMART BENEFITS** website ([www.smartbenefits.selfservicenow.com](http://www.smartbenefits.selfservicenow.com)), in your quarterly Thrift Plan statement, and in the Quarterly Investment Report. Past issues of the Quarterly Investment Report are available on the **SMART BENEFITS** website at [www.smartbenefits.selfservicenow.com](http://www.smartbenefits.selfservicenow.com) on the Thrift Plan page, under the Benefits tab.

Remember, past performance is no guarantee of future performance.



### *Making Your Investment Elections*

When you choose your investments, you will make three separate investment elections. You'll need to decide how to invest:

- Your Deferred Compensation contributions;
- Your Savings contributions; and
- Your Employer Matching contributions.

You may choose the same investments — or different investments — for these three types of contributions. Your investment elections may be made in 1 percent increments. If no investment election is made, these contributions will automatically be invested in the Government Securities Fund.

You may change your investment elections by using *Benefits Express* or *Benefits Express On-Line*. Transaction requests will go into effect the next business day and do not affect the investment of your existing account balance.

### *Transferring Existing Balances Among Funds*

You may transfer your existing balances among funds in 1 percent increments. For example, if you're nearing retirement and want to move from a higher risk to a lower risk investment, you may transfer your entire balance or a portion of the balance in 1 percent increments. Using *Benefits Express On-Line* or speaking with a Benefits Specialist at the *Benefits Express Center*, you may also transfer specific dollar amounts among funds. (**Please Note:** Transfers between the Fixed Income Fund and the Government Securities Fund may only be in percentages.)

Transfers may be made by either a single transfer-of-funds election across all accounts (Savings, Deferred Compensation, Employer Matching, Rollover, and IRA) or individual transfers among each account.

- A single transfer across all accounts may be requested using the *Benefits Express* voice response system, *Benefits Express On-Line*, or by speaking to a Benefits Specialist at the *Benefits Express Center*.
- An individual transfer among each account may only be requested by using *Benefits Express On-Line* or by speaking to a Benefits Specialist at the *Benefits Express Center*.





The following chart shows how you can make transfers of your existing account balances:

TRANSFER TYPE:	FUNDS INVOLVED:	DEADLINE:
DAILY	Among Equity Group Funds	Request must be received by 4 pm Eastern Time (or the close of business of the New York Stock Exchange (NYSE), if earlier) to be effective at the close of business that day.
DAILY	Between Equity Group Funds and the Government Securities Fund	Request must be received by 4 pm Eastern Time (or the close of business of the NYSE, if earlier) to be effective at the close of business that day. (Please Note: If you have also transferred funds from the Fixed Income Fund to an Equity Group Fund during the last three months, certain limits apply to the amount you can transfer to the Government Securities Fund.)
MONTHLY	Between the Fixed Income Fund and the Equity Group Funds	Request must be received by 4 pm Eastern Time (or the close of business of the NYSE, if earlier) three business days prior to the last business day of the month to be effective at the close of business on the last business day of the month. (Please Note: You must wait three months between transfers of this type.)
SEMI-ANNUAL	Between the Fixed Income Fund and the Government Securities Fund	Request must be received by 4 pm Eastern Time (or the close of business of the NYSE, if earlier) on the last day of May or November to be effective on the last business day (at the close of business) of June or December, respectively.

Daily fund transfers are not allowed during the last three business days of the month if any month-end transaction is pending.



## HOW YOUR SAVINGS CAN GROW

When you participate in the Thrift Plan, your savings can grow in several different ways.

- First, when you save on a pre-tax basis, your take-home pay is greater than if you save on an after-tax basis, because you save on your current income taxes;
- Second, your savings may grow over time through your Employer Matching contributions and investment earnings. The more money you add to your account, the faster your savings may grow. And, the sooner you begin investing, the more you may earn (subject to fluctuations in the investment market); and
- Finally, over a period of time, your investments can make money for you through compounding. *Compounding* is the process by which earnings on your investments remain in your account and have the potential to earn future income.

For example, suppose you're an employee earning \$30,000. You decide to save 6 percent of your salary on a pre-tax basis or 6 percent on an after-tax basis. The chart below compares the tax consequences of pre-tax and after-tax savings if you file an individual return. **Reminder:** If you save on a pre-tax basis, you will only have access to that money through a hardship withdrawal or a loan while you are still employed by the Federal Reserve and are under age 59½.

	PRE-TAX:	AFTER-TAX:
Annual pay	\$30,000	\$30,000
Pre-tax savings (6 percent)	1,800	0
Income before taxes	28,200	30,000
Estimated federal income tax*	3,730	4,000
After-tax income	24,470	26,000
After-tax savings	0	1,800
Take-home pay	24,470	24,200
Federal tax savings	270	0

\* Federal income taxes are estimated for a single head of household using 2002 rates. This example does not include any standard deductions and exemptions, state taxes, or local taxes.

As you can see in this example, by saving the same amount on a pre-tax basis as opposed to an after-tax basis, you could increase your take-home pay by \$270 per year. Keep in mind that this example only takes federal income taxes into account — not standard deductions and exemptions, state taxes, and local taxes. Your own tax savings may be different.



## VESTING

Vesting is your right to the money in your Thrift Plan accounts. You are always 100 percent vested in the value of your own contributions, and any investment earnings on those contributions. This includes any money you roll over to the Plan. If you were an employee on December 31, 2001, you are also 100 percent vested in your Employer Matching contributions as of January 1, 2002.

If you began your employment after December 31, 2001, you become 20 percent vested for each year of service until you are 100 percent vested after five years of service. The vesting schedule is as follows:

COMPLETED YEARS OF SERVICE:	PERCENT VESTED:
1	20 percent
2	40 percent
3	60 percent
4	80 percent
5	100 percent

The chart below provides some additional information regarding vesting and enrollment in the Thrift Plan.

IF YOU...	THEN...	AND...
were an employee on December 31, 2001	you are 100 percent vested in your Employer Matching contributions as of January 1, 2002	you can enroll at any time
enroll when you first begin working at the Federal Reserve after January 1, 2002	you are 20 percent vested in Employer Matching contributions and investment earnings on that money for each year of service you complete with the Federal Reserve, until you are 100 percent vested after five years of service	you are credited with a year of service on your employment anniversary date
retire on or after age 65, become totally and permanently disabled, die, or the Plan terminates	you are 100 percent vested	there is no service requirement
do not elect to participate when you first start working with the Federal Reserve	you will receive vesting service credit for years of service with the Federal Reserve before you become a participant	you can enroll at any time

If you leave your employment with the Federal Reserve, you are entitled to receive only the funds in which you are vested. You forfeit any non-vested amount.

## IF YOU LEAVE AND ARE REHIRED

If you leave the Federal Reserve before you are 100 percent vested and return to employment, the Plan will count your former service in determining your vesting percentage. For example, if you worked for three years and left, you would have been 60 percent vested. If you return to work at the Federal Reserve, you will be considered 60 percent vested and will need to work two more years to become 100 percent vested.

## BORROWING FROM YOUR PLAN ACCOUNTS

Although the Thrift Plan is designed to help you save for long-term goals, there may be times when you need access to your money — for example, for the down payment on a new home.

If you are under age 70½ (or age 70½ or over and employed by the Federal Reserve), you may borrow from your Plan accounts and pay yourself back. The interest rate charged on your loan is fixed as of the first day of the month in which the loan occurs, based on the Prime Rate listed in *The Wall Street Journal* on the third Friday of the preceding month.

Loan repayments are usually made by after-tax payroll deduction, but you may also make repayments by check. If you're on a leave without pay or retired, you can continue repaying your loan through direct debit.

### *Types Of Loans*

There are two types of loans available through the Plan:

- *General Purpose Loan:* You may take between six and 60 months to repay a general purpose loan.
- *Primary Residence Loan:* You may take between 61 and 180 months to repay a primary residence loan. Your primary residence can be a house, condominium, co-op, mobile home, or new home constructed by a builder or yourself, or the land for new construction or a mobile home.

Your loan amount is taken from your Thrift Plan accounts (pro-rata from each investment fund) in the following order:

- Deferred Compensation account;
- Vested Employer Matching account;
- Rollover account;
- Post-1986 Savings account; and
- Pre-1987 Savings account.



When you repay your loan, your repayments are:

- Made in after-tax dollars;
- Allocated to the same accounts from which the loan was made; and
- Invested according to your loan repayment investment election.

If you do not have a loan repayment investment election on file, all repayments are invested according to your Employer Matching election. The Government Securities fund is the default election if neither election is on file.

### *Limits On Loans*

The minimum amount you may borrow from your account is \$1,000, and the amount borrowed must be a whole dollar amount. The maximum amount allowed is the lesser of 50 percent of your vested balance (minus any outstanding loan balance), or up to \$50,000 (minus any outstanding loan balance). You may only have two loans outstanding at a time.

### *Loan Request Procedure*

To find out how much money you may borrow or to check the current interest rate, call *Benefits Express* or access *Benefits Express On-Line*. If you're eligible to borrow against your account, you may request the loan. All loans are processed on the last business day of the month.

- For a *general purpose loan*, you must request the loan before 4 pm Eastern Time (or when the NYSE closes, if earlier) at least three business days before the last business day of the month or your loan will be processed the following month.
- For a *primary residence loan*, you must call to request an application, complete it, and ensure that it is received and approved at the *Benefits Express Center* by the last business day of the month.

### *Loan Repayment Procedure*

Generally, loan repayments are made through after-tax payroll deductions. After you have made loan payments for at least one month, you may request an early loan payoff, a partial loan repayment, or a loan rescheduling. Visit *Benefits Express On-Line* or contact the *Benefits Express Center* and speak with a Benefits Specialist for more information.

If you leave the Federal Reserve before repaying your loan, you may repay the entire loan immediately or continue making monthly payments through a direct debit arrangement with your financial institution.

**Please Note:** If you do not repay a loan in full, your loan will be considered a taxable distribution and will be subject to an early withdrawal penalty tax if you are under age 59½.

## WITHDRAWALS

You may make withdrawals from your Thrift Plan accounts during your employment. However, because the Plan is intended for long-term savings and retirement, withdrawals of pre-tax contributions and investment earnings are restricted by the Internal Revenue Code and carry tax consequences.

To initiate a withdrawal, contact *Benefits Express* or *Benefits Express On-Line*. You may request up to three withdrawals each year. You may make two types of withdrawals from your Thrift Plan:

- Non-hardship withdrawals; and
- Hardship withdrawals to meet certain severe financial needs.

Both types of withdrawals are discussed later in this section.

### *Tax Consequences Of Withdrawing Taxable Monies*

Your pre-tax contributions, Employer Matching contributions, and investment earnings become taxable when you receive them. You are encouraged to consult a professional financial or tax advisor for additional information on your own tax status before you request or receive any payment from the Plan.

### *Penalty For Early Withdrawal*

Unless one of the exceptions listed below applies, you'll be liable for an additional 10 percent federal income tax on the taxable portion of any Thrift Plan distribution you receive.

This income tax is in addition to the regular income taxes you will be required to pay on the taxable portion of your withdrawal when you file your IRS Form 1040. This income tax applies to any taxable distribution, whether or not you terminate employment, and will apply even if you make a hardship withdrawal of taxable funds. The tax applies to your Employer Matching contributions, rollovers, your pre-tax contributions, and all earnings on those amounts as well as the earnings on your after-tax contributions.

The 10 percent penalty does not apply if the withdrawal is paid:

- Because of your death or disability;
- After you separate from service in or after the year you reach age 55;
- After you reach age 59½;
- To cover tax-deductible medical expenses; or
- To an alternate payee as directed by a qualified domestic relations court order.





## *20 Percent Federal Tax Withholding*

IRS regulations also require an automatic 20 percent federal tax withholding on most taxable distributions (withdrawals, lump sums, or installments of less than 10 years) from eligible retirement plans. When you receive such a distribution, the Federal Reserve is required by law to withhold 20 percent. You can avoid the 20 percent withholding if you directly roll over the taxable amount into an IRA or another employer's qualified plan, and have your distribution check made payable to the trustee of the IRA or plan. If you don't directly roll over the distribution and have the check made payable to you, the 20 percent will be automatically withheld.

## *Non-Hardship Withdrawals*

The following amounts are available in a non-hardship withdrawal:

IF YOU ARE AN EMPLOYEE AND ARE UNDER AGE 59½, YOU MAY WITHDRAW FROM (IN THE FOLLOWING ORDER):	IF YOU ARE AN EMPLOYEE AND ARE AGE 59½ OR OLDER, YOU MAY WITHDRAW FROM (IN THE FOLLOWING ORDER):	IF YOU SEPARATE FROM SERVICE, YOU MAY WITHDRAW FROM:
<ul style="list-style-type: none"><li>• Pre-1987 Savings contributions;</li><li>• Post-1986 Savings contributions and earnings;</li><li>• Pre-1987 Savings earnings;</li><li>• Rollover account; and</li><li>• Employer Matching account.</li></ul>	<ul style="list-style-type: none"><li>• Pre-1987 Savings contributions;</li><li>• Post-1986 Savings contributions and earnings;</li><li>• Pre-1987 Savings earnings;</li><li>• Rollover account;</li><li>• Employer Matching account (You must have 60 months of participation); and</li><li>• Deferred Compensation account.</li></ul>	<ul style="list-style-type: none"><li>• All vested account balances</li></ul>

You may choose from two types of non-hardship withdrawals:

TYPE OF NON-HARDSHIP WITHDRAWAL:	SPECIAL GUIDELINES:
IMMEDIATE	<ul style="list-style-type: none"> <li>• No withdrawal of Fixed Income Fund or DEC/IRA account balances;</li> <li>• Valued on the same business day if you make a request through <i>Benefits Express</i> or <i>Benefits Express On-Line</i> before 4 pm Eastern Time or when the NYSE closes, if earlier;</li> <li>• Pro-rated across all investment funds (except Fixed Income); and</li> <li>• Not allowed during the last three business days of the month if you have a month-end transaction pending.</li> </ul>
MONTH-END	<ul style="list-style-type: none"> <li>• May include Fixed Income Fund;</li> <li>• May include DEC/IRA account balances;</li> <li>• Pro-rated across all investment funds; and</li> <li>• Valued on the last business day of the month if your request is received before 4 pm Eastern Time or when the NYSE closes, if earlier, at least three business days before the last business day of the month.</li> </ul>

Keep in mind that investment earnings are tax-deferred and will become taxable when withdrawn. For more information, see the heading *Tax Consequences Of Withdrawing Taxable Monies* earlier in this section.

To request a non-hardship withdrawal, contact *Benefits Express* or *Benefits Express On-Line*. If you're eligible, you may initiate the withdrawal directly through *Benefits Express* or *Benefits Express On-Line*.

### ***Hardship Withdrawals***

Employees under age 59½ may withdraw money from their Deferred Compensation accounts by requesting a hardship withdrawal. Hardship withdrawals are only available for the following severe financial hardships:

- Purchasing your primary residence;
- Preventing foreclosure or eviction from your primary residence;
- Paying for major uninsured medical expenses for you or your eligible dependents (those for whom you take a federal income tax deduction); and
- Paying tuition, room and board, and related educational expenses for the next 12 months for you or an eligible dependent to attend a post-secondary school, such as college.

Withdrawals for financial hardships are only allowed if funds from other sources are not reasonably available, including loans from your Thrift Plan account. Remember, your hardship withdrawal request can include an amount to cover the taxes which result from the withdrawal.





## *What You May Withdraw*

If you have an approved hardship, you will receive all non-Deferred Compensation account balances except IRA. In addition, you may withdraw certain funds from:

- Your Deferred Compensation account balance as of December 31, 1988; and
- Contributions made to your Deferred Compensation account after December 31, 1988 (these are paid out last).

## *To Request A Hardship Withdrawal*

To request a hardship withdrawal, you must contact *Benefits Express* or *Benefits Express On-Line* and request a hardship form. If you're eligible, you may request the appropriate withdrawal paperwork. You will be required to provide specific documentation for your withdrawal, as shown in the following chart:

FOR...	YOU WILL NEED...	DATED...
a primary home purchase	a purchase contract or an agreement with a contractor (if building a home)	within 30 days
non-reimbursed medical expenses	an Explanation of Benefits (EOB) statement	within two years
tuition, room and board	a summary of tuition-related expenses statement provided by the school	within four months of the beginning of the quarter or semester
preventing an eviction or foreclosure	a statement indicating that you are past due on mortgage or rent payments and a letter from your financial institution or landlord that mentions eviction or foreclosure	within the last 30 days

## *Tax Treatment Of Hardship Withdrawals*

Hardship withdrawals are taxable as ordinary income in the year in which they are received and are generally subject to the 10 percent early withdrawal penalty. Monies received in a hardship withdrawal are not subject to the 20 percent automatic federal income tax withholding and are not eligible for rollover.

### *Contribution Suspension After A Hardship Withdrawal*

If you take a hardship withdrawal, you won't be able to contribute to the Thrift Plan for six months following the receipt of the hardship withdrawal and, as a result, will not receive Employer Matching contributions during this period. You'll also have to establish new contribution rates after the suspension period ends. Contributions will *not* resume automatically.

### FINAL DISTRIBUTION OF FUNDS

You or your beneficiary may receive funds from the Thrift Plan under the following circumstances:

- If you become disabled;
- If you leave the Federal Reserve; or
- If you die.

#### **If your account balance is over \$5,000, you may:**

- Leave your account balance in the Plan until the April 1 following the end of the calendar year in which you reach age 70½, at which point the Plan will begin making minimum distributions to you in accordance with IRS regulations. You may continue making up to three withdrawals per year;
- Choose a direct rollover, and transfer all or a portion of your distribution to an IRA or other qualified plan that will accept the transfer; or
- Have the balance paid directly to you. Keep in mind that your distribution will be subject to 20 percent tax withholding, and may be subject to the 10 percent early withdrawal penalty if you are under age 59½ and retired before the year you reached age 55.

If you choose a distribution, either in the form of a direct rollover or direct payment, you may elect equal installments for a period of time (but not exceeding your life expectancy or joint life expectancy). All installment payments (except those for 10 years or more) are subject to 20 percent federal tax withholding, unless they are directly rolled over into an IRA or another qualified plan. Installments for 10 years or more cannot be rolled over. While you're receiving installment payments, you may request a month-end withdrawal.



## Restricted Installment Payment Option

If you leave the Federal Reserve before reaching age 55, you are also given the option of receiving installment payments prior to age 59½ without incurring the 10 percent early distribution tax. This option, called restricted installment payments, requires that you elect to receive installment payments over your life expectancy (or joint life expectancy). However, you are prohibited from making a withdrawal or modifying the payment election until five years from the date of the first installment or when you attain age 59½, whichever is later. At that point, you may choose to end the installment payments and receive a single lump sum payment of your remaining Thrift Plan account balance.

### If your Plan balance is less than or equal to \$5,000:

- You will automatically receive your funds approximately three months after you leave, unless you choose a direct rollover to an IRA or another qualified plan; and
- You may not leave your balance in the Plan.

When you receive a distribution from the Plan, you will receive an IRS Form 1099-R. This form is sent to you in January of the year following your distribution. The information is also filed with the IRS. You will need this form when filing your income taxes.

You will receive additional information regarding your final distribution options when you leave the Federal Reserve. To request a final distribution, contact *Benefits Express* for the appropriate paperwork.

## MINIMUM DISTRIBUTION AT AGE 70½

If you are not employed by the Federal Reserve when you reach age 70½, you are required to begin receiving your Thrift Plan balances. If your spouse, as your beneficiary, has left your balance in the Plan after your death, your spouse will be required to start receiving your balance when you would have reached age 70½. If the minimum required distribution is not paid out, a 50 percent excise tax may apply, in addition to any other taxes due.

## GENERAL INFORMATION ABOUT YOUR THRIFT PLAN

This section provides you with some general information regarding your Thrift Plan.

### *Qualified Domestic Relations Orders*

Your Thrift Plan benefit can become subject to a property or other financial settlement in case of a divorce. The court may then issue a Qualified Domestic Relations Order — a court order related to divorce — which could award a portion of your benefit to your former spouse, your child, or another dependent. Contact your Human Resources Department if this situation applies to you and they can arrange to send you or your attorney a model form of a Qualified Domestic Relations Order.

### *Loss Of Benefits*

If you leave the Federal Reserve before you are 100 percent vested in all Employer Matching contributions and investment earnings on that money, you (or your beneficiary) will forfeit any non-vested amounts in your Plan account.

### *Pension Benefit Guaranty Corporation*

The Thrift Plan is not covered by the Employee Retirement Income Security Act of 1974 (ERISA), so the Pension Benefit Guaranty Corporation (PBGC) does not insure your benefits under the Thrift Plan.

## FOR MORE INFORMATION

Refer to the PLAN ADMINISTRATION section for other important information about the Thrift Plan.